



Spatial Economics Research Centre

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Local Government Finance

If the rumours are correct, we may get more details on the government's plans to allow local councils to retain some of the (growth in) business rate revenues.

There has been plenty of discussion on what needs to happen if this is to provide 'growth incentives' to local authorities. I discussed some [broad principles a few weeks ago](#). The reforms need to be transparent and simple (so they can be explained to local voters). To affect growth, retention must be sufficient to provide a strong and permanent incentive. But for all kinds of reasons, the government will somehow need to balance these needs against a desire to ensure 'losing' local governments don't get left too far behind. A [recent Centre for Cities report](#) provides considerably more detail as well as advocating for local government to keep a fixed percentage of growth.

Perhaps because this is a *resources* review, there has been much less discussion (as yet) on [what should happen on the expenditure side](#). What items of expenditure should be the responsibility of local government and how much variation across areas can we accept?

There is a link to resources, because to avoid reducing the incentive effect it is clear that redistribution to provide specific services can't be based purely on the available resources of the local authority (because this negates any incentive effect). This suggests that, as far as possible, money will need to be followed by the individuals that the service benefits (as it does with the pupil premium). In this way, it should be possible to specify minimums for some services. But to do this, there will need to be serious debate about 'postcode lotteries'. What are the areas in which we are happy to see the level of service provision vary? Primary education? Social care for the young? What about for the old? Sports facilities? Libraries? Refuse collection?

In the past, any suggestion of postcode lotteries has been enough to raise temperatures. If it is to provide strong growth incentives, then the Local Government Resources Review must reignite this difficult debate.

Posted by [Prof Henry G. Overman](#) on [Monday, July 18, 2011](#)

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